The America Saving for Personal Investment, Retirement, and Education Act ("The ASPIRE Act of 2005")

To provide every newborn with a KIDS Account

QUESTIONS AND ANSWERS

1. What does the bill do?
2. Why is a bill to promote asset building for children necessary?
3. Who is eligible? Will illegal immigrants or children who become citizens get accounts?
4. Will children born before the bill takes effect get accounts?
5. Why do wealthy people get these accounts?
6. Why do poor people who don't pay taxes get accounts?
7. Is it unrealistic to expect those with low incomes to save when they already struggle to get by?
8. How much money will the government put into an account?
9. How much of the benefits will go to lower-income families?
10. Will assets in the accounts penalize people applying for public assistance?
11. Who can contribute to the accounts?
12. Why is there a limit on private contributions to the account?
13. Who will control the accounts?
14. How much will this cost?
15. Can America really afford this? How is this paid for?
16. Are there restrictions on account withdrawals? How can money in the account be used?
17. How will the account be taxed?
18. Why does the initial contribution have to be repaid?
19. Has this been done before?
20. How do KIDS Accounts differ from the UK's Child Trust Fund Accounts?
21. Will this raise college tuition?
22. What if my child needs money to pay for college before they are 18?
23. Who will manage this program?
24. Why can't the private sector offer accounts?
25. Why not let the private sector handle accounts of those under 18?
26. How much can a child save in a KIDS Account? What will they have when they are 18?
27. Where will money in KIDS Accounts be invested?
28. How will this bill help promote financial literacy?
29. Who supports this bill?
30. What is the legislative strategy for moving this bill through Congress?
31. How is this year's bill difference from last year?

32. What is the difference between the Senate and House versions of the bill?

1. What does the bill do?

The America Saving for Personal Investment, Retirement, and Education Act ("The ASPIRE Act of 2005") will provide a KIDS Account for every newborn child in 2007 and beyond. Each account will be endowed with an initial $500 contribution, and children living in households earning below the national median income will be eligible for both a supplemental contribution of up to $500 at birth as well as the opportunity to earn additional matching funds for amounts saved in the account. The Senate bill provides a dollar-for-dollar match of the first $500 contributed and the House bill provides a dollar-for-dollar match for the first $1,000 contributed. All contributions will be readjusted for inflation every five years.

Withdrawals cannot be made from the account until the account holder turns 18, at which time the account will be governed by the same rules as Roth Individual Retirement Accounts (Roth IRAs). These rules allow for tax-free withdrawals without penalty for select pre-retirement uses including post-secondary education and first-time home purchase.

2. Why is a bill to promote asset building for children necessary?

Success in America today depends not just on a job and growing income, but increasingly on the ability to accumulate a wide range of assets. Yet one-quarter of white children and half of non-white children grow up in households without any significant levels of savings or resources available for investment. It is the combination of both income and assets that provides the means to take advantage of the broad opportunities offered by a prosperous society. Owning a home, obtaining an education, and building a stock of financial investments are some of the essential elements of security and economic well-being because they provide the basis for building and expanding wealth.

To take full advantage of these opportunities, it is important to have a familiarity with financial assets. A KIDS Account will get every child and their family thinking about their future. Each child will grow up knowing they own a modest pool of resources that can help them get started in life as a young adult. For some, this asset pool can be used to seed profitable and productive investments, for others, it may provide a sense of security many now lack. The public investment signals that society has an interest in the success of every child, and they, in turn, will be responsible to make appropriate choices throughout their lives. By creating an inclusive system of children's accounts, The ASPIRE Act has the potential to expand opportunity, broaden asset ownership, and fortify the American economy for the long haul by helping children and their families plan to save.

Federal policy has historically discouraged asset building among households with fewer resources while heavily subsidizing it for non-poor households. This makes no sense. A smart policy would encourage all Americans to own assets.

3. Who is eligible? Will illegal immigrants or children who become citizens get accounts?

Every child born in the United States after December 31, 2006 is entitled to receive an account. Eligible individuals must be U.S. citizens or legal residents according to Section 431 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (the welfare reform bill). Children who become citizens before the age of 18 will be eligible to open accounts and receive account benefits.

4. Will children born before the bill takes effect get accounts?

Only children born after December 31, 2006 will receive accounts and be eligible for account benefits.

5. Why do wealthy people get these accounts?

Policies that include everyone but are targeted to people with greater needs have proven to be most enduring, while avoiding the stigma attached to means-tested programs. So, getting everyone in the same system will provide the strongest foundation for increased savings. While a KIDS Account will be universally accessible to each and every child, the majority of benefits will flow to families with modest incomes. In the Senate bill, over the first ten years, 83% of the benefits will go to families earning below the national median income of around $42,000.

Ensuring that every child has an account will increase the opportunity to use these accounts as teaching tools to facilitate financial education. Also, since a family's income level can fluctuate over the course of a career, this universal structure will ensure that children are not unfairly included or left out of the program because of their parents' income level reached a high or low point around the time they were born.

6. Why do poor people who don't pay taxes get accounts?

The value of assets is based not only on the economic security they provide but in how they enable people to make investments in their future and exert a stake in the broader society that income alone cannot provide. The ability to move up and out of poverty often depends on one's ability to accumulate assets. But millions of Americans live in households with few or no assets. One-quarter of white children and half of non-white children grow up in households without any significant levels of savings or resources available for investment. This represents an important dimension to the problem of inequality, which is usually discussed in terms of income. Wealth inequality is more severe than income inequality. According to the most recent Survey of Consumer Finances, conducted by the Federal Reserve in 2001, the top 10 percent of households in the U.S. ranked by income earn 44 percent of the nation's income but own 57 percent of total family net worth. In contrast, the bottom 60 percent earn 22 percent of the nation's income and own less than 17 percent of the nation's wealth. It's not that the rich have too much; it's that the poor don't have enough wealth to move their lives forward.

Public policy currently offers many asset building incentives through the tax code. But these incentives are not as accessible to the families that would benefit from them the most. Many lower-income households simply do not have large enough tax liabilities to take advantage of these tax expenditure programs.

7. Is it unrealistic to expect those with low incomes to save when they already struggle to get by?

Recent findings from a national demonstration project of matched savings accounts for low-income individuals found that program participants responded positively to savings incentives, overcoming doubts among policymakers as to whether the poor could save. The mere existence of these accounts changes behavior, particularly for lower-income people.

8. How much money will the government put into an account?

There will be an automatic contribution of $500 for every account. A child will qualify for a one-time supplemental contribution if their household income is below the national median income (currently about $42,300). The maximum supplemental contribution will be $500. The bonus amount will be evenly pro-rated so that a child receives the full amount if their household income is below 50% of the national median Adjusted Gross Income (AGI), or about $21,150, and a lesser amount as the household income approaches 100% of the national median AGI.

Eligible account holders can receive a one-to-one match on private contributions to their accounts each year until the account holder reaches the age of 18. The Senate bill will match the first $500 contributed and the House bill will match the first $1,000 contributed. The Senate bill phases out this match rate for families earning up to 105% of national median income, while the House bill phases out this match rate for families earning up to 200% of national median income.

All contribution amounts will be indexed for inflation every five years.

9. How much of the benefits will go to lower-income families?

In the first year, over two-thirds of the account benefits in the Senate version of the bill go to families earning under $42,230. Thirty-nine percent of the account benefits go to families earning below $21,100. Further, only 11% of the account benefits go to families earning over 200% of the national median income (roughly $84,000). As more cohorts become eligible for the means-tested matched savings, the percentage of benefits to lower-income families increases.

Household Income	Percent of Benefits Distributed over Time		
	First Year	First 10 Years	First 18 Years
$0 - $21,100 (0% to 50% of national median) 25% of all households	39%	43%	43%
$21,101- $42,230 (50% to 100% of national median) 25% of all households	31%	39%	43%
$42,231 - $63,340 (100% to 150% of national median) 18% of all households	11%	7%	6%
$63,341 - $84,450 (150% to 200% of national median) 14% of all households	8%	4%	3%
$84,451 and above (0ver 200% of national median) 18% of all households	11%	6%	5%

10. Will assets in the accounts penalize people applying for public assistance?

No. Amounts in accounts will not be considered when determining eligibility for any Federally-funded benefit.

11. Who can contribute to the accounts?

Private, voluntary contributions can be made to each account each year. These contributions will be after-tax and can come from any source, including parents, grandparents, friends, employers, non-profit organizations, and children themselves. The Senate bill allows for contributions up to $1,000 a year; the House bill allows for up contributions up to $2,000 a year.

12. Why is there a limit on private contributions to the account?

Earning on contributions to KIDS Accounts will be tax-free. These accounts are not intended to be tax shelters but vehicles to build assets. As such, it is necessary to impose a cap on how much money can be deposited into the account to prevent these accounts for being used as shelters.

13. Who will control the accounts?

Parents and legal guardians will serve as account custodians and make investment decisions until the accountholder reaches the age of 18. The account holder custodian shall elect how money in the KIDS Account is invested. If no election is made, a life cycle investment option will be specified as a default.

14. How much will this cost?

The estimated cost for this bill is $37.5 billion over the first ten years for the Senate bill and $68 billion over the first ten years for the House verison. Accounts would start being created in 2007. The cost in the first year when accounts are opened is $3.25 billion. Annual costs will rise as each new participant is eligible for benefits. Over twenty years, the total estimated cost is $85.6 billion for the Senate version and $175 billion for the House version. As a point of comparison, the *annual* cost to the government of allowing pension contributions to be excluded from income is $150 billion.

15. Can America really afford this? How is this paid for?

The cost of the legislation in 2007, if approved, would be $3.2 billion, a small fraction of the projected $2.6 trillion Federal budget in that year. However, this cost is different than virtually all other proposals for new spending or tax cuts because none of it would constitute a reduction in national savings – for the first 18 years of the program, all "outlays" would be fully invested, which would help spur the economy and promote long-term economic growth. In fact, the bill should *increase* national savings to the extent that its matching benefits and other incentives would encourage families to save more. Nevertheless, the current federal budget deficit is a significant public policy issue that will affect consideration of all existing and proposed federal policies. The bill does not assume that legislation's outlays would be offset by any particular revenue source.

16. Are there restrictions on withdrawals from KIDS Accounts? How can money in a KIDS Account be used?

There are a set of restrictions that apply to account withdrawals which are designed to ensure that the accounts are used by the account holders for productive, asset building purposes. No withdrawals can be made from the KIDS Accounts until an accountholder turns 18.

Once account holders turn 18, withdrawals shall be governed by the same rules which currently apply to Roth IRAs. These rules permit withdrawals without penalty prior to retirement for first-time home purchase and post-secondary education. Other distributions will be penalized at a rate of 10% for earnings on private contributions, and 100% for government contributions – that is, if you don't use the funds for a specified asset building purpose, you lose all the government matching funds. Accountholders can access their private contributions without penalty after age 18.

17. How will the account be taxed?

Withdrawals will be taxed according to Roth IRA rules. Qualified distributions from these accounts will be tax-exempt. Non-qualified distributions will be subject to a 10% penalty and a 100% tax on government contributions. Voluntary contributions to each account will be after-tax, and will not be tax deductible. Public contributions and deposits will not be included in federal income tax calculations.

18. Why does the initial contribution have to be repaid?

Each account holder will be required to repay the initial seed of $500 contribution at age 30. The Executive Director will develop procedures to govern options for repayment, and will consider community service and hardship forgiveness provisions. The supplemental contribution does not have to be repaid.

Repayment signals that a KIDS Account is not something for nothing. The initial $500 investment should be repaid to help subsequent generations when each person achieves a level of self-sufficiency as an adult.

19. Has this been done before?

The ASPIRE Act is innovative in many respects, but it has historic precedents both here and abroad. Internationally, the United Kingdom will create a national system of Child Trust Fund accounts. Every child born in the UK after September 2002 is eligible to receive a voucher of 250 pounds and an additional 250 pounds if they live in lower-income families. Funds will be invested until children reach the age of 18. Canada has recently proposed helping lower-income families save for their children's education with Learning Bonds. This program will give low-income children a $500 endowment into a Registered Education Savings Plan at birth and additional $100 top-ups every year. In addition, families with low incomes will be eligible to receive a matching grant on the first $500 saved into the account.

In the United States, historic initiatives, such as the Homestead Act of 1862, The GI Bill of 1944, and the creation of the Federal Housing Administration (FHA) in 1934, have expanded access to important elements of wealth creation and produced tangible results. The Homestead Act provided an opportunity to build wealth by developing property. Of the million and a half people that successfully took the government up on its offer, passing this wealth and property on to the next generation proved to be one of the most enduring legacies of the Act. The GI Bill offered veterans grants to pay for training and higher education, loans for setting up new businesses, and mortgages to purchase homes. Through this law, some $14.5 billion was spent by the federal government between 1944 and 1956 benefiting almost 8 million veterans. A congressional report has estimated that the GI Bill generated returns of up to seven dollars for every dollar invested, an impressive performance by any standard. The FHA was created to help many Americans purchase a home. Through its mortgage insurance and other financing products, FHA has played a role in the country's rising homeownership rate, which reached an all-time high of almost 70% in 2002.

The programs that have targeted children, such as TANF and its predecessor AFDC, traditionally have focused on income security, and thus have taken the form of ongoing children's allowances. This approach, which is very important, is quite distinct from complementary ones that focus on long-term savings and asset building strategies.

20. How do KIDS Accounts differ from the UK's Child Trust Fund Accounts?

There are two main differences. First, KIDS Accounts include matching of voluntary savings—this should substantially increase incentives for saving. Second, KIDS Accounts limit withdrawals to investment-related uses, whereas the UK program allows funds to be used for any purpose once an individual becomes an adult.

21. Will this raise college tuition?

Although many children may have increased levels of savings that could be used to pay for a college education, there is no clear evidence that this will lead to corresponding tuition increases by colleges. KIDS Accounts, rather, will be one of a number of tools—such as education savings plans, tax credits, and student aid—that families can use to help make college more accessible and affordable. A KIDS Account may enable lower-income students to work fewer hours while in school, thereby increasing their chances for graduating and completing college at a faster pace. These accounts may also increase the competition between and quality among colleges, who will have to compete for the growing numbers of students that find themselves in a better position to shop around for a college education. In addition, many people may decide not to use their KIDS account for education and instead use it to buy a home or build up a nest-egg for retirement.

The bill stipulates that any amounts in KIDS accounts shall not be taken into account in determining any individual's eligibility for any Federally-funded benefit, including student financial aid.

22. What if my child needs money to pay for college before they are 18?

The bill allows for account withdrawals only after accountholders reach the age of 18.

23. Who will manage this program?

The bill creates a Fund that will be established within Treasury and will be governed by a Board of Directors similar in structure to the Board overseeing the Thrift Savings Plan (TSP), the retirement program for federal employees. The Director of the Fund will be appointed by the Board and shall have the same powers and responsibilities as the Director of the TSP.

24. Why can't the private sector offer accounts?

They can. When account holders reach the age of 18, they will have the choice to either keep their accounts within the KIDS Account Fund or transfer their accounts to private sector financial service providers.

25. Why not let the private sector handle accounts of those under 18?

The Thrift Savings Plan model is more appropriate for handling small accounts because of its lower administrative costs. In addition, those who lack experience with financial investments may benefit from the simplicity of the TSP approach, with its limited set of investment options.

26. How much can a child save in a KIDS Account? What will they have when they are 18?

Account balances will depend on how much money is saved in the account, where it is invested, administrative fees, and the investment performance. Every financial prospectus includes a description of risk. That said, the historic performance of the Thrift Savings Plan index funds provides a fair gauge. The five TSP funds have an average annual return of 7.6% over the last ten years. Applying this rate of return with steady contributions of $300 for a family that qualifies for the match rate each year, can lead to an account balance of over $20,000 when the account holders reaches the age of 18.

27. Where will money in KIDS Accounts be invested?

A range of investment options will be provided similar to those offered by the Thrift Savings Plan, including a government securities fund, a fixed income investment fund, a common stock fund, and other funds that may be created by the Board.

28. How will this bill help promote financial literacy?

The bill explicitly calls for the development of programs to promote financial literacy among both children and parents alike. While parents and legal guardians will serve as account custodians and initially make investment decisions, children will have a stake in learning about an account that has their name on it. Additionally, providing every child with an account will facilitate introducing financial education into K-12 curriculum.

29. Who supports this bill?

The bill is being sponsored in the Senate by Senators Rick Santorum (R-PA) Jon Corzine (D-NJ), Jim DeMint (R-SC), and Charles Schumer (D-NY) and in the House by Representatives Harold Ford, Jr. (D-TN), Thomas Petri (R-WI), Patrick Kennedy (D-RI), and Phil English (R-PA).

30. What is the legislative strategy for moving this bill through Congress?

The legislation will be introduced in both the House and the Senate in the spring of 2005. An initial version of the bill was introduced in the 108^{th} Congress in July of 2004.

31. How is this year's bill difference from last year?

Since last year, several changes were made to the bill in both the House and the Senate versions.

- Treat All KIDS Accounts According to Roth IRAs Rules at 18.

When account holders reach the age of 18, their KIDS Accounts will be treated as Roth IRAs. All of the Roth IRA rules will apply. With this approach, the bill will be amended so there are no provisions for privately-managed KIDS Accounts. Contribution rules would be those that apply to Roth IRAs. Accountholders could keep these accounts in the public KIDS Account Fund or roll them out to private Roth providers or State-run 529 Plans.

- Allow Contributions Post-18.

Since KIDS Accounts will be governed by Roth IRA rules, Roth IRA contribution limits will apply.

- Require a Minimum Balance

To maintain the account as a savings platform for retirement security and life-long asset building, the bill will be amended to require a minimum balance in the KIDS Accounts held by the KIDS Account Fund at all times until retirement age. The minimum balance is equal to the automatic contribution, initially $500. Rollouts to other accounts would be permitted for balances above the minimum.

32. What are the differences between the Senate and House versions of the bill?

There are three differences between the Senate and House versions of the bill. They are summarized below:

	Senate Bill	House Bill
Amount of Deposits Eligible for a Matching Contribution	$500	$1,000
Income Phase-out of "Matched Amount"	Between 100% -105% of National Median Income	Between 100% - 200% of National Median Income
Cap on Private, Voluntary Contributions	$1,000	$2,000